STIMSONITE CORP
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ITEM 8--FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

Financial statements and schedules are listed under item 14.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and

Stockholders of Stimsonite Corporation

We have audited the accompanying consolidated balance sheets of Stimsonite Corporation and Subsidiaries as of December 31, 1996 and 1995 and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Stimsonite Corporation and Subsidiaries as of December 31, 1996 and 1995, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1996, in conformity with generally accepted accounting principles.

Coopers & Lybrand L.L.P.

Chicago, Illinois

February 18, 1997

STIMSONITE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(dollars in thousands, except share amounts)

	Year Ended Decemb	
	1996	1995
	----	----
Net sales	$ 82,712	$ 68,119
Cost of goods sold	55,835	41,625
	------	------

Gross profit	26,877	26,494
Operating expenses:		
Selling and administrative	15,260	13,149
Research and development	2,800	3,089
Amortization of intangible assets	2,846	2,815
Restructuring charge	4,000	--
Total operating expenses	24,906	19,053
Operating income	1,971	7,441
Other (income) expense:		
Interest expense	2,680	2,606
Joint venture partnership loss	--	111
Other income	--	--
Income (loss) before provision for income taxes and extraordinary item	(709)	4,724
Provision (benefit) for income taxes	(193)	2,114
Income before extraordinary item	(516)	2,610
Extraordinary item, net of tax benefit	332	--
Net income (loss)	$(848)	$2,610
Earnings (loss) per common and common equivalent share:		
Income before extraordinary item	$(0.06)	$0.29
Extraordinary item, net of tax benefit	(0.04)	--
Net income (loss)	$ (0.09)	$ 0.29
Weighted average number of common and common equivalent shares outstanding	8,974,823	9,118,912

The accompanying notes are an integral part of the consolidated financial statements.

STIMSONITE CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(dollars in thousands, except share amounts)

ASSETS	December 31, 1996	1995
Current assets:		
Cash and cash equivalents	$ 227	$ 251
Trade accounts receivable, less allowance for doubtful accounts of $1,206 (1996) and $895 (1995)	17,130	18,144
Inventories	11,938	14,848
Prepaid expenses and other	3,157	921
Deferred tax assets	1,670	1,345
Total current assets	34,122	35,509
Property, plant and equipment, net	18,907	11,890
Intangible assets, net	14,373	16,884
Deferred financing costs, net of accumulated amortization of $24 (1996) and $2,152 (1995)	287	892
Deferred tax assets	3,990	2,322
Other	191	99
Total assets	$71,870	$67,596

LIABILITIES AND STOCKHOLDERS' EQUITY	1996	1995
Current liabilities:		
Accounts payable	$ 11,334	$ 7,242
Current maturities of long-term debt	2,500	3,243
Accrued employee benefits	3,526	3,510
Accrued warranty costs	909	510
Accrued income taxes	0	1,527
Total current liabilities	18,269	16,032
Accrued post retirement benefits	631	631
Long-term debt	28,300	24,703

Total liabilities	47,200	41,366
Commitments and Contingencies		
Stockholders' equity:		
Common Stock, $.01 par value-- 15,000,000 shares authorized, 8,706,150 shares (1996) and 8,861,400 shares (1995) issued and outstanding	90	89
Treasury stock, at cost	(1,801)	(494
Additional paid-in capital	23,818	23,516
Retained earnings	2,314	3,162
Foreign currency translation adjustment	249	(43
Total stockholders' equity	24,670	26,230
Total liabilities and stockholders' equity	$71,870	$67,596

The accompanying notes are an integral part of the consolidated financial statements.

STIMSONITE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)

	Year Ended D
Cash flows from operating activities:	1996
Net income (loss)	$ (848)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:	
Depreciation	3,166
Amortization of intangibles, deferred financing costs and discount on long-term debt	3,124
Provision for uncollectible accounts	311
Deferred income taxes	(1,993)
Extraordinary item	332
Restructuring charge	4,000
Joint venture partnership loss	--
Changes in assets and liabilities, (net of effects of acquisitions)::	
Trade accounts receivables	703
Inventories	2,910
Prepaid expense and other	(2,236)
Accounts payable	4,945
Accrued employee benefits	16
Accrued warranty	399
Accrued income taxes	(1,527)
Net cash provided by operating activities	13,302
Cash flows from investing activities:	
Purchase of property, plant and equipment	(9,394)
Acquisition of Pave-Mark	--
Investment in joint venture partnership	--
Other	
Net cash used in investing activities	(9,394)
Cash flows from financing activities:	
Net proceeds from the issuance of common stock	303
Payment to reacquire Common Stock	(1,307)
Payments on notes receivable on common stock	--
Principal payments under capital lease obligation	(34)
Proceeds from long term-debt	37,300
Payments on long term-debt	(40,154)
Cash over draft	--
Financing fees paid in connection with debt refinancing	(332)
Net cash provided by (used in) financing activities	(4,224)
Effect of exchange rate changes on cash	292
Net increase (decrease) in cash and cash equivalents	(24)
Cash and cash equivalents, beginning of year	251
Cash and cash equivalents, end of year	$ 227
Supplemental disclosures:	
Cash paid during the year for interest	$2,810
Cash paid during the year for income taxes	$2,880
Capital Lease for Property, Plant & Equipment	$ 724
Property, Plant & Equipment purchases included in Accounts Payable	$3,915

The accompanying notes are an integral part of the consolidated financial statements.

STIMSONITE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(dollars in thousands except share data)

		1996		1995	
		Shares	Amount	Shares	Amount
COMMON STOCK	Balance at January 1	8,861,400	$89	8,903,900	$89
	Repurchase of common stock	(188,500)		(60,000)	
	Issuance of common stock	33,250	1	17,500	
	Balance at December 31	8,706,150	$90	8,861,400	$89
TREASURY STOCK	Balance at January 1	(60,000)	($494)		

	Repurchase of common stock	(188,500)	(1,307)	(60,000)	($494
	Balance at December 31	(248,500)	($1,801)	(60,000)	($494
ADDITIONAL PAID IN	Balance at January 1		$23,516		$23,401
CAPITAL	Issuance of common stock		302		115
	Balance at December 31		$23,818		$23,516
NOTES RECEIVABLE	Balance at January 1				($61
FROM STOCK SALE	Payments on notes receivable				61
	Balance at December 31				
ACCUMULATED	Balance at January 1		$3,162		$552
EARNINGS (DEFICIT)	Net income (loss)		(848)		2,610
	Balance at December 31		$2,314		$3,162
FOREIGN CURRENCY	Balance at January 1		($43)		($13
TRANSLATION ADJUSTMENT	Aggregate adjustment from translation of foreign currency statements		292		(30
	Balance at December 31		$249		($43
TOTAL STOCKHOLDERS'	Balance at January 1		$26,230		$23,968
EQUITY	Repurchase of common stock		(1,307)		(494
	Payments on notes receivable				61
	Issuance of common stock		303		115
	Foreign currency translation adjustment		292		(30
	Net income (Loss)		(848)		2,610
	Balance at December 31		$24,670		$26,230

STIMSONITE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands, except per share amounts)

1. Nature of Business:

Stimsonite Corporation and subsidiaries (the "Company") is a manufacturer and marketer of highway safety products. These products include (i) highway delineation products, such as raised reflective pavement markers, thermoplastic pavement marking materials and related application equipment, construction work zone markers, and roadside and other delineators; and (ii) optical film materials, such as high performance reflective sheeting used in the construction of highway signs, pre-printed sign faces, and other applications.

2. Summary of Significant Accounting Policies:

A summary of the significant accounting policies used in the preparation of the accompanying consolidated financial statements follows:

Principles of Consolidation

The consolidated financial statements include the financial statements of

Stimsonite Corporation and its subsidiaries. Significant intercompany transactions have been eliminated in consolidation.

Foreign Currency Translation

The financial statements of foreign operations are translated into U.S. dollars in accordance with Statement of Financial Accounting Standards (SFAS) No. 52. Accordingly, all assets and liabilities are translated at current and historical rates of exchange and operating transactions are translated at weighted average rates during the year. The translation gains and losses are accumulated as a component of stockholders' equity.

Revenue Recognition

The Company recognizes revenue upon shipment of the product.

Cash and Cash Equivalents

Cash and cash equivalents include all highly liquid debt instruments with an initial maturity date of three months or less.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined on the first-in, first-out (FIFO) basis.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation is computed by use of the straight-line method over the estimated useful lives of the assets. Expenditures for maintenance and repairs are charged to operations as incurred; major improvements are capitalized. Upon retirement or sale, the cost of assets and related accumulated depreciation are removed from the accounts and any resulting gains or losses upon disposition are reflected in operations. The following is a summary of the estimated useful lives utilized by the Company:

Equipment....................................	7 years
Furniture and fixtures......................	7 years
Automobiles..................................	5 years
Molds, dies and tools......................	3 years
Leasehold improvements......................	Lesser of lease life
or useful life	

Intangible Assets

Intangible assets have been recorded at cost and are being amortized on the straight-line basis over their respective amortization periods (see Note 5). In the current year, the Company adopted the Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." The statement requires that long-lived assets and certain identifiable intangibles held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment is evaluated by comparing future cash flows (undiscounted and without interest charges) expected to result from the use of the asset and its eventual disposition to the carrying amount of the asset.

Deferred Financing Costs

Deferred financing costs represent commitment fees and other costs incurred in connection with the issuance of long-term debt. These costs are amortized as interest expense over the life of the related debt using the interest method.

Warranty Costs

Estimated costs related to warranty of certain highway signing products are charged to operations at the time of the sale.

Income Taxes

The Company accounts for income taxes under the principles of SFAS No. 109 "Accounting for Income Taxes."

In accordance with SFAS No. 109, deferred income taxes are recorded to reflect the tax consequences on future years of differences between the basis of assets and liabilities for income tax and for financial reporting purposes. In addition, the amount of any future tax benefits are reduced by a valuation allowance to the extent such benefits are not expected to be fully realized.

Financial Instruments

The fair value of cash and cash equivalents is assumed to approximate the carrying value of these assets due to the short duration of these instruments. The fair value of the Company's debt, current and long-term is estimated to approximate the carrying value of these liabilities based upon borrowing rates currently available to the Company for borrowings with similar terms.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates made by the Company include warranty accruals which are estimated based upon product performance experience, and it is reasonably possible that this estimate could change in the near term.

Earnings Per Share Calculation

The computation of income (loss) per common share is based on the weighted average number of common and common equivalent shares outstanding during each period. The dilutive effect of all other stock options has been calculated using the treasury stock method. Income (loss) per common and common equivalent share computed on an historical basis pursuant to Accounting Principles Board Opinion No. 15 approximates the SAB 83 presentation.

Recently Issued Accounting Pronouncements

Earnings per share

Statement of Financial Accounting Standards No. 128, "Earnings Per Share," revises the disclosure requirements and increases the comparability of EPS data on an international basis by simplifying the existing computational guidelines in APB Opinion No. 15. The pronouncement will require dual presentation of basic

and diluted EPS on the Company's Statement of Operations and is effective the Company's fiscal year ending December 31, 1997. The Company believes that adoption will not have a material impact on its financial statements.

Disclosure of Information About Capital Structure Statement of Financial Accounting Standards No. 129. "Disclosures of Information About Capital Structure," establishes standards for disclosing information about an entity's capital structure. The new accounting principle is effective for the Company's fiscal year ending December 31, 1997. The Company believes that adoption will not have a material impact on its current disclosures.

3. Inventories:

Inventories are comprised of the following:

	December 31, 1996	December 31, 1995
Raw materials............................	$ 3,772	$ 4,735
Work-in-process..........................	1,601	4,062
Finished goods...........................	6,565	6,051
	$11,938	$14,848

4. Property, Plant and Equipment:

Property, plant and equipment are comprised of the following:

	December 31, 1996	December 31, 1995
Equipment................................	$17,016	$14,382
Molds, dies and tools....................	3,822	3,761
Leasehold improvements...................	2,817	2,133
Furniture and fixtures...................	786	566
Automobiles..............................	595	480
Waukegan facility costs..................	6,411	---
Construction in progress.................	1,948	1,891
	33,395	23,213
Less accumulated depreciation and amortization	(14,488)	(11,323)
	$18,907	$11,890

5. Intangible Assets:

Intangible assets consist of the following:

	Amortization Period	December 31, 1996	December 31, 1995
Patents	6-17 years	$15,467	$15,246
Covenants not to compete	3-10 years	7,089	7,089
Sales representative and distribution organization acquired	7 years	2,298	2,298
Government product approvals acquired	15 years	2,148	2,148
Goodwill associated with Simsco acquisition	20 years	1,279	1,279
Goodwill associated with Pave-Mark acquisition	20 years	901	901

Trademarks and other	15 years	2,777	2,663
		------	--------
		31,959	31,624
Less accumulated amortization.		(17,586)	(14,740)
		------	--------
		$14,373	$16,884
		=======	========

6. Long Term Debt:

At December 31, 1996, the Company had outstanding borrowings under the new credit agreement as follows:

	December 31, 1996
Term Loan principal payable quarterly from March 31, 1997 through March 31, 2003 and final payment of $8.75 million due June 30, 2003. Interest payable in one, two, three or six month periods at the Company's option.	$ 24,375
Revolver loan principal due June 30, 2000. Interest payable in one, two, three or six month periods at the Company's option.	6,425
	30,800
Less current maturities	(2,500)
Total long-term debt	$28,300

On July 23, 1996, the Company refinanced its long term debt under a new unsecured credit agreement. The terms of the new credit agreement provide a credit facility totaling $45.0 million of which $20.0 million is revolving credit due on June 30, 2000 and $25.0 million is a term loan due June 30, 2003. In connection with the debt refinancing, the Company recorded a $0.3 million ($0.04 per share) extraordinary charge in the third quarter of 1996 attributable to the write-off of deferred financing fees related to the Company's prior credit facility.

Quarterly installment repayments of $0.625 million and a final repayment of $8.75 million is due on June 30, 2003 on the term loan. Borrowings under the new credit agreement may be repaid in whole or in part without penalty.

The outstanding borrowings under the revolver loan bear interest at prime (8.25% at December 31, 1996) or LIBOR (at the Company's option) plus a LIBOR margin ranging from 0.75% to 1.5% based on the ratio of debt to cash flow determined on the immediately preceding rolling four quarter performance at December 31, 1996. At December 31, 1996, the LIBOR margin in effect was 1.25% and the all inclusive LIBOR interest rate on the revolving loan was 6.935%. At December 31, 1996, under the revolving loan, $5.0 million was borrowed under LIBOR contracts and $1.425 million was borrowed at prime. The outstanding borrowings under the term loan bear interest at either prime plus .25%. (8.5% at December 31, 1996) or LIBOR plus 1.8% (7.4875% at December 31, 1996)(at the company's option). At December 31, 1996 all outstanding borrowings under the term loan were under LIBOR contract.

Under the revolving loan, subject to compliance with certain borrowing base requirements, the Company may borrow up to $20.0 million. At December 31, 1996, $6,425 was outstanding under the revolving loan and $13,575 was available for further borrowing after considering borrowing base requirements. Unused amounts under the revolving loan are subject to an annual commitment fee of 0.375%.

The new credit facility establishes certain financial covenants, including covenants relating to the Company's funded debt to EBITDA ratio, cash flow coverage ratio and leverage ratio. In addition the new credit agreement imposes limitations on the Company with respect to among other things, (i) capital expenditures; (ii) mergers, acquisitions and purchases and sales of assets;

(iii) additional indebtedness and liens; (iv) transactions with affiliates and

(v) the payment of cash dividends and the repurchase of common stock. The Company's performance with respect to these covenants will affect, among other things, the level of additional borrowing available under the agreement.

Future minimum principal payments of long term debt are as follows:

Year	Total
1997	$ 2,500
1998	2,500
1999	2,500
2000	8,925
2001	2,500
2002	2,500
2003	9,375
$30,800	

At December 31, 1995, the Company had term loans payable to its principal lender under the old credit agreement as follows:

	December 31, 1995
Term Loan A bearing interest at base rate plus 1.25% (9.75% at December 31, 1995) or LIBOR plus 2.5% (8.1875% at December 31, 1995), at the Company's option, payable in quarterly installments from March 31, 1996 through 1998. Interest payable quarterly.	$8,567
Term Loan B bearing interest at base rate plus 1.75% (10.25% at December 31, 1995) or LIBOR plus 3.0% (8.685% at December 31, 1995) at the Company's option payable in quarterly installments from March 31, 1996 through 2000. Interest payable quarterly.	6,579

Revolver loan bearing interest at base rate plus 1.25% (9.75% at December 31, 1995) or LIBOR plus 2.5% (8.1875% at December 31, 1995) at the Company's option, 1998. Interest payable quarterly.	12,600
Swing line loan, principal due September 28, 1998. Interest payable quarterly	200
27,946	
Less current maturities	(3,243)
Total long-term debt	$24,703

7. Common Stock:

On January 11, 1994 in connection with the underwriters' option to purchase additional shares to cover over-allotments in the Company's December 1993 initial public offering, the Company issued 333,500 shares of Common Stock to the public at $9.00 per share. The underwriting discounts and commissions against the sale were $210 with net proceeds to the Company amounting to $2,791. The proceeds were used to repay term loans under the credit agreement in effect at that time.

During 1994, 14,000 shares of Common Stock were issued in connection with the exercise of stock options. The average exercise price per share was $1.61.

During 1995, 17,500 shares of Common Stock were issued in connection with the exercise of stock options. The average exercise price was $1.94.

During 1995, the Board of Directors authorized the repurchase of up to 500,000 outstanding shares of Common Stock. As of December 31, 1996, a total of 248,500 shares had been repurchased as treasury stock at an average purchase price of $7.25. Completion of this stock repurchase program will be dependent upon the approval of the Company's lenders under the credit agreement and the market price of the stock.

During 1996, 33,250 shares of common stock were issued in connection with the exercise of stock options. The average exercise price was $1.70.

8. Stock Options:

Under the Stimsonite Corporation 1991 Stock Option Plan, up to 210,000 options to purchase shares of Common Stock were authorized for grant. Under the Stimsonite Corporation Executive Stock Option Plan (the "1992 Plan"), 197,050 options to purchase shares of Common Stock were authorized for grant. Under the Stimsonite Corporation 1993 Incentive Equity Plan (the "1993 Plan"), up to 428,000 shares of Common Stock may be issued pursuant to awards granted thereunder. Awards under the 1993 Plan may be awards of restricted stock, stock options, stock appreciation rights, deferred shares, performance shares and performance units. Through December 31, 1996, stock options were the only types of awards granted under the 1993 Plan. In 1994, the Company adopted the Stimsonite Corporation 1994 Stock Option Plan for Non-Employee Directors (the "Director Plan"). Under the Director Plan, certain non-employee directors receive an option to purchase 2,000 shares of Common Stock. The options vest over 5 years. Additionally each non-employee director may make an election to receive director's compensation in the form of stock options. In 1995 and 1994, 15,889 and 51,785 options were respectively granted under the Director Plan. The Director Plan also provides that each non-employee director elected at each annual meeting of stockholders receives an option to purchase 1,500 shares of

common stock. No options were exercised under the Director Plan during the years 1996, 1995 and 1994.

The following is a summary of the activity in the Company's stock option plans and other options issued for the years ended December 31, 1996, 1995 and 1994.

Year Ended December 31,	1996	1995	1994
Outstanding, beginning of the period	305,724	297,335	249,550
Granted	161,847	67,856	61,785
Exercised	(33,250)	(17,500)	(14,000)
Canceled	(91,347)	(41,967)	--
Outstanding at end of period	342,974	305,724	297,335
Average price per share	$ 4.88	$ 3.54	$ 3.18
Exercisable at end of period	161,108	172,252	172,550
Available for grant at end of period	477,226	547,726	573,615

The average exercise price per share of stock options exercised was $1.70 per share in 1996, $1.94 per share in 1995 and $1.61 per share in 1994.

The Company applies the provision of APB 25 in accounting for its stock based employee compensation arrangements. During 1996, the Company was required to adopt Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation ("SFAS No. 123") which encourages entities to adopt a fair value based method of accounting for stock-based compensation plans in place of the provisions of Accounting Principles Board Opinion No. 25 Accounting for Stock Issued to Employees ("APB No. 25") for all arrangements under which employees receive shares of stock or other equity instruments of the employer or the employer incurs liabilities to employees in amounts based on the price of its stock.

The Company recognizes compensation cost for stock-based compensation awards equal to the difference between the quoted market price of the stock at the date

of grant or award and the price to be paid by the employee upon exercise in accordance with the provisions of APB No. 25. Based upon the terms of Company's current stock option plans, the stock price on the date of grant and price paid upon exercise are the same, thus no compensation charge is required to be recognized.

As allowed by SFAS No. 123, the Company will continue to apply the provisions of APB No. 25 in accounting for its stock-based employee compensation arrangements and will disclose pro forma net income and earnings per share information in its footnotes as if the fair value method suggested in SFAS No. 123 had been applied.

If compensation cost based on fair value method of the options had been used, the Company's net income and earnings per common share (EPS) would have been as follows:

		1996	1995
Net Income (Loss)	As reported	$(848)	$2,610
	Pro Forma	(900)	2,603
EPS	As Reported	$(0.09)	$0.29
	Pro Forma	(0.10)	0.29

The fair value of each option was estimated as of the date of the grant using the Black-Scholes option pricing model based on the following assumptions for 1996 and 1995, respectively: volatility of 33.0% and 33.4%; expected life of 7 and 6 years; risk-free interest rate of 5.4% and 7.7%; and no payment of dividends expected during the life of the options. The weighted average fair value of options granted during 1996 is $4.19 per share.

9. Income Taxes:

The components of income (loss) before provision (benefit) for income taxes and extraordinary item are as follows:

Year Ended December 31,

1996	1995	1994	
Domestic	$(175)	$5,902	$ 9,806
Foreign	(534)	(1,178)	451
$(1,709)	$4,724	$10,257	

The income tax provision (benefit) on income before provision for income taxes and extraordinary item for the years ended December 31, 1996, 1995 and 1994 is comprised of the following:

Year Ended December 31,

Current income tax expense:	1996	1995	1994
Federal	$1,485	$3,164	$3,379
State	315	672	783
Total current	$1,800	$3,836	$4,162

Deferred income tax (benefit) expense:			
Federal	$(1,638)	$(1,455)	$ (118)
State	(355)	(267)	(27)
Total deferred	(1,993)	(1,722)	(145)
Total (benefit) provision	$ (193)	$2,114	$4,017

The income tax provision (benefit) differs from a provision (benefit) computed at the U.S. statutory rate as follows:

Year Ended December 31,

	1996	1995	1994
Statutory rate	(34.0%)	34.0%	34.0%
State income taxes			
(net of Federal benefit)	(5.6%)	5.0%	5.0%
Inability to utilize			
foreign operating losses	25.6%	6.8%	1.2%
Net operating loss utilized	--	--	(2.7%)

Provision for contingencies	(18.3%)	5.8%	--
Foreign sales corporation	(14.1%)	--	--
Reversal of foreign valuation allowance	--	(6.8%)	--
Provision for non-deductible expenses	19.2%	--	--
Other	--	--	1.7%
Total	(27.2%)	44.8%	39.2%

The consolidated balance sheet includes the following:

	December 31, 1996		
	Current	Non-current	Total
Deferred income tax assets	$1,670	$4,793	$6,463
Valuation allowance	--	(803)	(803)
Total	$1,670	$3,990	$5,660

	December 31, 1995		
	Current	Non-current	Total
Deferred income tax assets	$1,345	$2,794	$4,139
Valuation allowance	--	(472)	(472)
Total	$1,345	$2,322	$3,667

The components of the deferred tax asset balance (tax effected) are as follows:

December 31, 1996		December 31, 1995	
Temporary	Tax	Temporary	Tax

	Difference	Effect	Difference	Effect
Property, plant and equipment	$ 1,954	$ 761	$ 1,427	$ 549
Intangible assets	410	159	420	163
Allowance for doubtful accounts	905	353	517	200
Inventory obsolescence reserve and capitalization	1,963	766	1,951	757
Accrued vacation	503	196	520	202
Accrued post-retirement benefits	405	158	467	181
Accrued warranty	910	354	510	198
Stock option compensation	925	364	925	364
Restructuring reserve	4,000	1,560	--	--
Inter-company profits	364	141	364	141
Foreign NOLs	3,302	1,651	2,768	1,384
Subtotals	15,641	6,463	9,869	4,139
Less valuation allowance	(1,651)	(803)	(943)	(472)
Total	**$ 13,990**	**$ 5,660**	**$ 8,926**	**$ 3,667**

As of December 31, 1996 and 1995, the Company had foreign net operating loss carry forwards of approximately $3,302 and $2,768, respectively. The carry forwards were generated principally in Europe and Australia and have no expiration date. During 1995, management implemented certain tax planning strategies to utilize the carry forwards attributable to Australia. As a result, the valuation allowance associated with the Australian carry forwards was reduced to zero as of December 31, 1995. As of December 31, 1996, the valuation allowance and related increase in the valuation allowance relates to the European deferred tax assets and is recorded as a result of the uncertainty of their ultimate realization.

10. Employee Benefit Plans:

The Company has a 401(k) savings plan covering substantially all of its salaried employees. The Company matches 25% of certain employee's pretax contributions under this plan. Contributions eligible for Company matching are limited to 6% of eligible earnings. Company matching contributions vest immediately. Company contributions under these plans for the years ended December 31, 1996, 1995 and 1994 were approximately $456, $541 and $446, respectively.

The Company has an agreement with an executive officer that provides for deferred compensation. The agreement provides for deferred payments based on years of service. For the years ended December 31, 1996, 1995 and 1994, expenses recorded under this plan were $70, $39 and $160, respectively.

11. Post-Retirement Benefits Other Than Pensions:

The Company is obligated to provide post-retirement benefits consisting mainly of medical coverage and life insurance to certain employees and their dependents who retired prior to July 31, 1991 as well as active employees age 55 or older on July 31, 1991 who are eligible for coverage when they retire and reach age 65.

For the years ended December 31, 1996, 1995 and 1994, the periodic expense for the post-retirement benefits consisted only of interest costs of $39, $46 and $62, respectively.

The discount rate used in determining the APBO as of December 31, 1996 and 1995 was 7.0% at each year end. The assumed health care cost trend rate used in measuring the APBO as of December 31, 1996 and 1995 varies by the age of the participant and the retirement date and ranges from 9% to 14%.

If the health care cost trend rate assumptions were increased by 1%, the APBO as of December 31, 1996 and 1995 would be increased by 2.0% at each year end. The effect of this change on net periodic post-retirement benefit expense for the years ended December 31, 1996 and 1995 would be an increase of 1.8% for each year, resulting from the increase in interest expense.

12. Commitments:

The Company leases its office, warehouse and manufacturing facilities under non-cancelable operating leases which expire through 2008. The leases for these facilities contain renewal options, escalation clauses and requirements that the Company pay real estate taxes, insurance, utilities and maintenance.

Rent expense for the years ended December 31, 1996, 1995 and 1994 were approximately $1,926, $1,412 and $850, respectively. Annual minimum future payments for the next five years under all lease commitments are as follows:

Year Ending December 31,	
1997	$1,979
1998	1,807
1999	1,622
2000	1,269
2001	1,151

13. Credit Risk:

Financial instruments which potentially subject the Company to concentration of credit risk consist principally of trade receivables. The majority of the Company's sales are made to state governments and independent contractors and are related to highway construction and maintenance. The Company has a policy of obtaining letters of credit on most foreign sales, and payment bonds on most contractor sales. The Company generally sells on an unsecured basis to other customers including governmental agencies and distributors.

14. Geographic Segment Data:

The Company's operations consist of a single business segment which manufactures and markets reflective highway safety products. Transfers between geographic areas were at cost plus a negotiated mark-up. Sales and selected financial information by geographic area for the years ended December 31, 1996, 1995 and 1994 are as follows:

1996	United States	International	Eliminations	Consolidated
Revenues	$78,467	$6,492	$(2,247)	$82,712
Operating income	2,499	(528)	--	1,971
Net income (loss)	(252)	(596)	--	(848)
Total assets	74,488	5,739	(8,357)	71,870

1995	United States	International	Eliminations	Consolidated
Revenues	$64,262	$6,833	$(2,976)	$68,119
Operating income	8,619	(1,178)	--	7,441
Net income (loss)	3,788	(1,178)	--	2,610
Total assets	75,766	6,016	(14,186)	67,596

1994	United States	International	Eliminations	Consolidated
Revenues	$52,496	$5,689	$(2,244)	$55,941
Operating income	13,342	(821)	(353)	12,168
Net income	5,832*	451*	(147)	6,136
Total assets	51,927	5,206	(6,197)	50,936

* United States other expenses and international other income include $1,327 of debt forgiveness owing by Stimsonite GmbH to the Company on liquidation of Stimsonite GmbH in 1994.

International assets are principally trade receivables, inventory and goodwill associated with the acquisition of Simsco. United States revenue includes export sales for the years ended December 31, 1996 and 1995 of $3,859 and $2,876, respectively, inclusive of transfers between geographic areas, which are eliminated.

15. Acquisition of Pave-Mark Corporation:

On May 31, 1995, the Company, through a wholly owned subsidiary, purchased substantially all of the assets of Pave-Mark Corporation, a manufacturer of thermoplastic materials and related application equipment used primarily for highway marking. This acquisition was accounted for under the purchase method of accounting. The operating results of Pave-Mark have been included in the Company's consolidated results of operations since the acquisition date. The final purchase price was $7.5 million. In addition to the purchase price, the Company capitalized approximately $0.5 million acquisition costs. Proforma unaudited results of operations for the years ended December 31, 1995 and 1994 assuming the Pave-Mark acquisition had occurred on January 1, 1995 and January 1, 1994, respectively, are as follows:

Stimsonite Corporation and Subsidiaries
Proforma Condensed Combined Statement of Operations
For the Periods Indicated

(Unaudited)

	Year ended December 31, 1995	Year ended December 31, 1994
Net sales	$77,405	$82,460
Income before extraordinary item	2,628	5,413
Extraordinary item, net of tax benefit	--	(104)
Net income	2,628	5,309
Income per common and common equivalent share:		
Income before extraordinary item	$0.29	$0.60
Extraordinary item, net of tax benefit	--	(0.01)
Net income	$0.29	$0.59
Average number of common and common equivalent shares outstanding	9,118,912	9,074,529

In conjunction with the above purchase, liabilities of $5.7 million were assumed. Goodwill acquired is being amortized over no more than 20 years using the straight-line method.

16. Extraordinary Item:

In 1994, the Company recorded a pre-tax extraordinary loss of $143 resulting from the elimination of a portion of deferred financing fees upon the application of the net proceeds of the additional shares of common stock issued pursuant to exercise of the underwriters' over-allotment option granted in connection with the initial public offering to repay amounts borrowed under the credit agreement then in effect. A tax benefit of $39 was allocated to the extraordinary loss.

In 1996, the company recorded a pre-tax extraordinary loss of $554 resulting from the write-off of the remaining deferred financing fees relating to the repayment of the Company's prior indebtedness. A tax benefit of $222 was allocated to the extraordinary loss.

17. Restructuring Charge:

The Company incurred a $4.0 million restructuring charge in the fourth quarter of 1996. Substantially all of the charges relate to anticipated losses in conjunction with the proposed sale of land and a building under construction in Waukegan, IL. In April 1996, the Company purchased 20 acres of undeveloped land in Waukegan, IL for the purpose of constructing a new manufacturing and office complex. The Company intended to relocate its principal manufacturing and office functions from Niles, IL to the Waukegan site during 1997. The Company initiated the construction of a 137,000 square foot building on the land in May 1996. In December 1996, when the facility was partially completed, the Company decided to remain in its Niles, IL facilities and not relocate any operations to Waukegan. The building is an enclosed shell which could be occupied upon a buildout of the office facilities. The site is currently listed for sale with a commercial broker. The building was constructed to meet the specific manufacturing requirements of the Company, including special electrical power requirements and environmental safety features. The Company believes that the cost of certain unique features of the building may not be recoverable. In addition, the 20-acre land site is approximately twice as large as is necessary for the existing building and the cost of the additional land may not be recoverable. In recognition of the potentially unrecoverable costs and the marketing expenses associated with prospective sale of the building, the Company recorded the restructuring charge.

The restructuring charge also includes certain other costs associated with a series of actions to reduce expenses. Among these actions were a 10% reduction in the salaried workforce and consolidation into the Niles, IL facility of several administrative functions that were previously performed in other domestic locations.